

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EA-12 FRB-01 INR-10 IO-14 NEA-10 NSAE-00 ICA-20
OPIC-06 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 /123 W
-----023865 062248Z /75

R 061112Z APR 78
FM AMEMBASSY VIENNA
TO SECSTATE WASHDC 5854
INFO AMEMBASSY PARIS

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USOECD

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A
TAGS: OECD, EFIN, ETRD, ELAB, AU
SUBJECT: QUARTERLY REVISION OF ECONOMIC FORECASTS

REF: 77 VIENNA 10953

1. SUMMARY

FIRST QUARTER 1978 FORECASTS BY BOTH AUSTRIAN ECONOMIC RESEARCH INSTITUTES SHOW VIRTUALLY NO CHANGE IN EARLIER RELATIVELY PESSIMISTIC EVALUATIONS OF DOMESTIC AND INTERNATIONAL ECONOMIC PROSPECTS. WHILE THE INSTITUTE FOR ECONOMIC RESEARCH (AIER) CONTINUES TO PREDICT 1.5 PERCENT REAL GNP GROWTH IN 1978 AGAINST 2.5 AVERAGE GROWTH OF OECD COUNTRIES, IT FORECASTS A NOMINAL RISE BY ONLY 5.5 PERCENT TO AS835.4 BILLION AT CURRENT MARKET PRICES COMPARED WITH A PREVIOUSLY PREDICTED 6 PERCENT RISE. THE INSTITUTE FOR ADVANCED STUDIES (FORD INSTITUTE - FI) PREDICTS 2.1 PERCENT REAL GROWTH IN 1978, BUT ONLY 1.8 PERCENT IN 1979.
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BOTH INSTITUTES REDUCED THEIR INFLATION FORECASTS FOR THE CURRENT YEAR TO 4.0 PERCENT (AIER) AND 3.9 PERCENT (FI), ATTRIBUTING THE EASING OF PRICE PRESSURES TO THE GENERAL SLACKENING OF DEMAND, LOWER CAPACITY UTILIZATION, MODERATE WAGE INCREASES, AND THE CONTINUED - THOUGH MORE FLEXIBLE - HARD CURRENCY POLICY AND RESTRICTIVE MONETARY COURSE. ESTIMATES OF INVENTORY RESTOCKING WERE ALSO REDUCED. THE

INSTITUTES WARNED THAT OVERALL ECONOMIC GROWTH THIS AND NEXT YEAR WILL BE INADEQUATE TO PREVENT AN ACCELERATING RISE IN UNEMPLOYMENT TO 2.5 PERCENT AND 3.0 PERCENT IN THAT PERIOD. IN THEIR VIEW, AN INTERNATIONAL ECONOMIC RECOVERY IS NOT TO BE RECKONED WITH IN THE FORESEEABLE FUTURE, AND THUS THE BASIC IMBALANCE IN AUSTRIA'S FOREIGN TRADE IS LIKELY TO PERSIST FOR THE TIME BEING. ACCORDING TO AIER DIRECTOR SEIDEL, GOA MEASURES IMPLEMENTED LAST FALL WILL PROBABLY NOT BE SUFFICIENT TO DECISIVELY CUT DOWN THE BUDGET DEFICIT IN 1978, BUT MIGHT HELP TO ACHIEVE THIS GOAL IN 1979 EVEN IN CASE A WAGE TAX REDUCTION IS IMPLEMENTED NEXT YEAR. FI FORECASTS FOR 1979 MAKE ALLOWANCE FOR A MODEST WAGE TAX REFORM. END SUMMARY.

2. LATEST 1978 FORECASTS ARE HIGHLIGHTED BELOW. LAST DECEMBER'S PROJECTIONS AS WELL AS 1977 PRELIMINARY RESULTS ARE ADDED FOR COMPARISON. ALL CHANGES ARE IN PERCENT UNLESS OTHERWISE INDICATED:

- AIER FORD INSTITUTE
 - RESULTS FORECAST OF FORECAST OF
 - 1977 MAR 78 DEC 77 MAR 78 DEC 77
 - ----- FOR THE YEAR 1978 ----

REAL GNP - 3.5 - 1.5 - 1.5 - 2.1 - 2.0
 REAL GNP (EXCL.
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AGRICULTURE) - 3.9 - 1.5 - 1.5 - - -
 NOMINAL GNP (AS
 BILL., CURRENT
 PRICES) - 790.5 - 835.4 844.4 839.2 850.0
 GNP DEFLATOR - 4.9 - 4.0 4.5 4.0 4.8
 PRIVATE CONSUMP-
 TION (REAL) - 6.9 - 1 - 1 - 1.8 - 2.0
 GROSS ASSET FOR-
 MATION (REAL) - 8.2 - 1.5 - 1.5 3.0 3.2
 OF WHICH EQUIP-
 MENT - 12.4 - 0 - 0 2.2 2.1
 CONSTRUCTION 5.1 - 3 - 3 3.5 4.1
 INVENTORIES (CHANG-
 ES IN CURRENT AS
 BILL.) - 13.6 - 4.4 14.0 7.3 13.7
 COMMODITY EXPORT
 - (REAL) 3.3 - 4.5 4
 - (NOMINAL) 6.4 - 7.5 7 - 4.9 7.7
 EXPORTS OF GOODS
 AND SERVICES (REAL) 5.0 - 4.5 3.75 3.6 3.9
 - (NOMINAL) 9.7 - 8.5 7.75 6.8 8.5
 COMMODITY IMPORTS

- (REAL) 10.2 -1 -1
- (NOMINAL) 14.1 - 2 - 2 - 2.2 3.8
IMPORTS OF GOODS
AND SERVICES (REAL) 8.5 - 1 - 1 - 1.8 1.3
(NOMINAL) 13.2 - 5 - 5 - 4.8 5.4
EXPORT PRICES 3.1 - 3 - 3
IMPORT PRICES 3.6 - 3 - 3
- FORD INSTITUTE
- RESULTS FORECAST OF FORECAST OF
- 1977 MAR 78 DEC 77 MAR 78 DEC 77
- ----- FOR THE YEAR 1978 -----

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USOECD

- FORD INSTITUTE
- RESULTS FORECAST OF FORECAST OF
- 1977 MAR 78 DEC 77 MAR 78 DEC 77
- ----- FOR THE YEAR 1978 -----

CONSUMER PRICES - 5.5 4.0 4.5 3.9 - 5.2
EMPLOYMENT GROWTH 1.9 0 - 0 - 0.3 - 0.3
UNEMPLOYMENT RATE - . "
()- 1.8 2.5 2.5 2.5 - 2.5
LABOR COSTS (PER
PRODUCTION UNIT) 6.5 -
PER CAPITA PAY- - " ,
ROLLS 8.1 8 - 8 - 7.7 7.6

PAYROLLS IN 1978 ARE INFLATED BY TECHNICAL CHANGES IN THE

PAYMENT OF FAMILY ALLOWANCES. EXCLUDING SUCH ALLOWANCES
THE INCREASE IN PAYROLLS IS ESTIMATED AT 6.5 PERCENT. THE
INCREASE IN 1977 LABOR COSTS PARTLY REFLECTS A SLOWER RISE
IN PRODUCTIVITY THAN IN THE YEAR BEFORE. AIER IMPROVED
FORECAST OF EXPORT GROWTH IS BASED ON ASSUMED CONTINUATION
OF MODEST GAINS OF MARKET SHARES ALREADY WITNESSED IN 1977
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DESPITE HARD CURRENCY POLICY AND DETERIORATION OF RELATIVE
LABOR COST POSITION. FI'S DOWNWARD REVISION OF EXPORT
GROWTH ESTIMATE REFLECTS OPPOSITE VIEW. PROSPECTS OF
TOURIST BUSINESS ARE CONSIDERED TO BE MORE FAVORABLE THAN
IN 1977. AIER PREDICTS 11 PERCENT RISE IN RECEIPTS, COM-
PARED WITH 9 PERCENT FORECAST LAST DECEMBER.

3. 1979 FORECASTS BY THE FORD INSTITUTE ARE AS FOLLOWS:
NOMINAL GNP AT CURRENT MARKET PRICES AS883.0 BILLION.
FOLLOWING CHANGES ARE IN PERCENT: REAL GNP 1.8, GNP DE-
FLATOR 3.4, PRIVATE CONSUMPTION (REAL) 2.8, GROSS ASSET
FORMATION (REAL) 0.9, OF WHICH EQUIPMENT MINUS 0.7, CON-
STRUCTION 2.2; COMMODITY EXPORTS (NOMINAL) 4.7, COMMODITY
IMPORTS (NOMINAL) 3.7; EXPORTS OF GOODS AND SERVICES (REAL
/NOMINAL) 2.9/6.1, IMPORTS OF GOODS AND SERVICES (REAL/
NOMINAL) 2.5/5.2, CONSUMER PRICES 3.3, EMPLOYMENT GROWTH
MINUS 0.9, UNEMPLOYMENT RATE 3.0 PERCENT, UNIT LABOR COSTS
3.0 PERCENT, PER CAPITA PAYROLLS 5.9. FI ESTIMATES INVEN-
TORY INCREASE AT AS3.7 BILLION AT CURRENT PRICES, WHICH
IS ONE HALF LESS THAN PREDICTED FOR 1978.

4. AIER ALSO REVISED ITS DECEMBER 1977 FORECASTS OF BAL-
ANCE OF PAYMENTS DEVELOPMENTS IN 1978. FIGURES ARE IN
AS BILLION:

-	1978
-	1977 AIER FORECAST OF
-	RESULTS MAR 78 DEC 77

TRADE DEFICIT (INCLUDING
GOLD AND TRANSIT TRAFFIC) - 71.4 - 63.5 - 61.7
OF WHICH COMMODITY TRADE
DEFICIT - 73.1 - 65.7 - 64.5
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SERVICES BALANCE	24.6	24.7	24.1
BALANCE OF UNILATERAL			
TRANSFERS	- 2.3	- 1.0	- 1.0

BALANCE OF CURRENT TRANS-
ACTIONS - 49.1 - 39.8 - 38.6
LONG TERM CAPITAL FLOWS 10.2 9.8 10.6
ERRORS AND OMISSIONS 20.2 20.0 16.0
CHANGE IN RESERVES (EXCLUD-
ING CHANGES IN FOREIGN
CURRENCY VALUES) - 18.7 - 10.0 - 12.0

WOLF

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